

Empire Building

The Inland Empire

is poised for brisk growth.

*But some questions
still remain.*

By Steven B. Kaufman

If anybody doubts the robust growth prospects of Riverside and San Bernardino counties, consider the case of Randall Lewis, an executive at Lewis Operating Co., one of the biggest residential and commercial developers in the Inland Empire. His Upland-based company is building thousands of apartments and numerous shopping centers and planning several master planned communities. Lewis barely can keep pace with requests from Los Angeles- and Orange County-based homebuilders who want to construct homes in his communities.

The reasons are simple. They have largely run out of space to build new homes on their own home turfs, or the land simply costs too much to develop.

That makes the two adjacent counties one of the last places left to build, one indication that Riverside and San Bernardino counties, while not immune from recession, are still faring better than most California metropolises. And they'll likely remain one of the nation's fastest-growing metropolitan areas.

Just like Sacto

Riverside and San Bernardino counties make up a sprawling region east of Los Angeles. The Inland Empire, as it's often referred to, is home to 3.4 million people and is anchored by the City of Riverside, the area's largest city with a fast-growing population currently approaching 280,000. For the last 20 years, the Inland Empire was the nation's second-fastest-growing metro area, trailing only Las Vegas.

The region started as a low-cost bedroom community serving Los Angeles and Orange counties. It still serves that role, to some extent, but it since has evolved into the biggest

warehousing and distribution nucleus in the West, a center for traditional manufacturing, and a growing hub for retailing and professional services. All of these factors will continue to fuel growth over the next decade, and that is why Lewis and a lot of other businesspeople in the area are unbridled optimists.

"There will be much more demand for housing in the Inland Empire over the next 10 years than during the last 10, and that was plenty of demand in the last 10 years," Lewis says. "It has to grow because a lot of people have no place else to buy homes in Southern California and because our job base continues to grow."

There is an important parallel between the Inland Empire and Sacramento. Each area has grown rapidly over the last decade and will continue to do so, economists say, because each offers a viable low-cost alternative to other bigger metro areas.

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— Jack Stewart

And just as Sacramento has attracted growth from the San Francisco Bay Area, the Inland Empire has lured businesses and people from Los Angeles and Orange counties.

"Non-coastal metropolitan areas are now the growth drivers in California," says Jim Diffley, an economist at DRI-WEFA, a regional economic research firm. "And the Inland Empire is certainly the most important one in Southern California."

DRI-WEFA, based in Lexington, Mass., says employment in the Inland Empire grew at a torrid average annual rate of 4.7% during the five years ended in 2001. Over the next five years, growth will slow to an average annual rate of 2.8%, largely because it will be harder for the region to grow as rapidly on a bigger base. Still, DRI-WEFA's projected growth rate is more than double the rate of growth it projects for the rest of California.

The City of Riverside is likely to pace, if not exceed, the region's growth. One big reason is that it has its own municipal-owned utility. As a result, the California Public Utility Commission rate hikes have not impacted it.

Another advantage is the 56-acre

University Research Park in Riverside, which has attracted a cluster of coveted technology companies, such as Applied Digital Solutions, e-Business Practices, and Centrum Analytical Services. The park is the cornerstone of a budding effort to attract more information technology firms and life sciences companies to the Inland Empire while further diversifying the local economy.

"The perception among outsiders is that the Inland Empire is not a place for technology," says Teri Ooms, president of the Inland Empire Economic Partnership in San Bernardino. "But things are changing here, and we will prove the skeptics wrong in coming years."

The Inland Empire has become a world-class warehousing, trucking, and distribution center, mostly because of its proximity to the Ports of Los Angeles and Long Beach, excellent rail links, and its ample and inexpensive land.

Ontario International Airport recently doubled its capacity at a time when Los Angeles International Airport is battling growth restrictions. In addition, the region now has two more regional airports – San Bernardino International Airport, formerly called the Norton Air Force Base, and the Southern California Logistics Airport, formerly George Air Force Base. And the \$2.4 billion Alameda Corridor, the nation's largest public works project, is set to open by mid-year. It will connect the ports to new rail yards in Riverside and San Bernardino and further strengthen the Inland Empire's edge in logistics.

Another promising omen is the embryonic growth of professional office buildings and shopping centers, which spur the economy

and contribute to a broader selection of houses. While most Inland Empire homes are modest – the median sales price is \$153,000, compared to \$238,000 in Los Angeles and \$353,000 in Orange County – Lewis and others point to a growing inventory of homes priced from \$400,000 to \$1 million. These make the area more appealing to the growing cadre of professionals the Inland Empire is trying to attract.

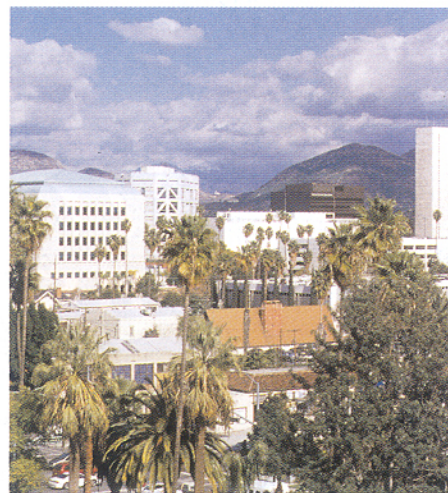
One shopping center in particular – the 1.7 million-square foot Ontario Mills – helped prove that relatively upscale retailing belongs in the Inland Empire. The mall, which many thought would flop because of its proximity to Los Angeles, immediately became successful when it opened in 1997 and has spawned additional developments and the construction of more elaborate homes.

The challenges

Not every major economist thrust in the Inland Empire has been challenge-free. It's unclear how much information technology and life sciences companies will grow and help improve the region's modest demographic profile.

Traditional manufacturing had been a big contributor to growth, spurred by an exodus of companies from pricier coastal regions. But it has slowed markedly. Riverside's aforementioned gains have been offset by cuts by established local companies, such as Toro Co., the lawnmower maker, which last December relocated its Riverside manufacturing operations to El Paso, Texas, eliminating 440 local jobs.

The trend isn't necessarily temporary, although Boyd Plowman, an executive vice president at Fleetwood Enterprises, believes it



is. He argues that most Southern California manufacturers must maintain their local presence to serve the market and that the inexpensive Inland Empire is the preferred location. Fleetwood, a maker of recreational vehicles and manufactured homes, closed more plants outside of California than inside California, Plowman adds.

Yet others counter that no place in California, including the Inland Empire, is immune from a relatively hostile manufacturing environment, one in which electricity prices and workers compensation costs are sky high. Plus, stringent state requirements for employee health coverage make companies think twice about providing the benefit.

"Unless California creates new policies to encourage manufacturing growth, we'll see fewer and fewer manufacturing jobs created in the Inland Empire and everywhere else in California," says Jack Stewart, president of the California Manufacturers and Technology Association.

Long-term prospects for technology growth also are unclear. The stakes are especially big because 85% of the graduates of the Inland Empire's local universities leave the area after graduation to work elsewhere in California, according to the Riverside County Economic Development Agency.

"I think we'll attract some high-tech growth over time, but I don't see the Inland Empire becoming another Silicon Valley," says Tas Dienes, executive vice president of Riverside-based I/O Software Inc.

There is virtually no question, however, that the Inland Empire will grow briskly overall. It's just a matter of degree.

"The Inland Empire is still the low-cost place to do business in Southern California," says Steven Cochrane, an economist at Economy.com. "So many companies that want to stay in California will continue to view it as a good place to be."

Steven B. Kaufman is a San Jose-based writer. He was formerly a longtime business writer for the San Jose Mercury News.

Vital Stats

2001 Riverside Employment

Month	labor force	employment	unemployment	unemployment rate
Jan	1,540,201	1,467,898	72,303	4.7%
Feb	1,531,820	1,460,356	71,464	4.7%
Mar	1,541,204	1,471,150	70,054	4.5%
Apr	1,531,565	1,463,213	68,352	4.5%
May	1,538,703	1,471,527	67,176	4.4%
Jun	1,557,611	1,478,295	79,316	5.1%
Jul	1,564,425	1,481,833	82,592	5.3%
Aug	1,551,872	1,469,125	82,747	5.3%
Sep	1,546,541	1,465,504	81,037	5.2%
Oct	1,565,130	1,481,624	83,506	5.3%
Nov	1,570,767	1,488,850	81,917	5.2%
Dec	1,572,144	1,498,338	73,806	4.7%

Figures are for Riverside metro area; provided by the U.S. Bureau of Labor Statistics.